

Relationships in trade

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Relationships in Trade Progress of commodity-money relations leads to formation of new policies, concerning international trade. Hence, today the query about urgency of free trade is given careful consideration, debating efficiency and appropriateness of government restrictions. On the contrary to the policy of laissez-faire, protectionism has been always traditional to the economy of the USA, being advocated during most time of the American history. Lately the meetings of G20 countries have been finalized with conclusions to decline protectionism, emphasizing its destructive influence. However, currently a lot of politicians continue to use protectionist measures, because of firm believe of its suitability and significance in guaranteeing of economic growth. Historically protectionism was aroused in a period of mercantilism's development. This economic study propagandized restraining trade in order to protect domestic manufacturers. Beginning from XVIII century protectionism has been considered as a major doctrine in such European countries as Austria, Sweden, and Great Britain. Despite active advocacy of free trade, protectionism has managed to live till nowadays. For example, in March 2010 president of France, Nicolas Sarkozy, accused the United States in high protectionist measures, stating that if America wanted to fight against protectionism, then it should show better example (Paviot, 2010). The policy of protectionism presupposes the usage of numerous restraining measures and government regulations to prevent national markets from foreign producers, decreasing import and encouraging local companies. With this aim countries may claim various policies that are directed to reduce competition between firms. Hence, the most popular method is setting tariffs and import quotas on imported goods. These

measures increase price of the products in the domestic markets that in its turn reduces the quantity of imported goods. Moreover, frequently government uses direct subsidies, which are paid national companies for helping them to stay competitive and survive in changing market stipulations. Also countries may put some administrative barriers, for instance, announcing environmental standards, and set anti-dumping duties for regulating prices on imported products. The most general reason of restricting foreign trade is the fact that governments of specified countries care only about national interests, regarding the needs of humanity. To support idea of protectionism there are several social, political and economic arguments. First of all, protectionism maintains the security of the state that in case of rejecting restrictions will be threatened by narrow specialization of economy. Secondly, protectionism helps to avoid depression and recession and to protect new sectors of economy. Putting import quotas allows to gain additional economic profits and replenish state budget, but only in case when demand for the product is more elastic than its supply. Further, protectionism expands national production, increases rate of employment and improves demographic indicators. Hence, rising demand for the product enlarges the volume of output, which in its turn affects the demand for labor that increases employment, wages and level of live. In spite of all mentioned positive influences of restrictions, according to Rutledge (2007), “ The number one risk to sustained global growth is rising protectionism in the United States” (p. 11). Protectionism is criticized from the point of entrepreneur’s freedom and protection of consumers. In this respect, several negative consequences of protectionism can be marked out. On account of

tariffs imported goods have higher prices, that fact raises demand for domestic products and due to the law of demand prices of local goods also rise. Low levels of competition reduce the stimulus to produce goods with better quality, implementing new technologies. Consumers lose the right of choice, being compelled to purchase products with low quality and high prices. Restraining measures lead to development of smuggling and existence of black market and trade wars. Protectionism activates political tension between countries, reinforces intergovernmental rivalry, and threatens international stability and protection. In addition, slowdown in economic growth may become a result of monopolization that threatens markets with unfavorable conditions for the consumers. Therefore, many economists suggest eliminating tariffs and expanding imports that will ensure inflow of technologies, capital and labor to the country. Cooperating with other countries, government will get additional profits, benefiting by further development of international trade. References Bhagwati, J. (1988). Protectionism. Cambridge: MIT Press. Buchanan, P. J. (2002, July 29). Is protectionism America's future? [Web log comment]. Retrieved from <http://www.buchanan.org/blog/pjb-is-protectionism-americas-future-469> Francis, D. (2009, February 3). US protectionism globally destructive. National Post. Retrieved from <http://www.network.nationalpost.com/np/blogs/francis/archive/2009/02/03/us-protectionism-globally-destructive.aspx> Hachmeier, W. (1968). Revival of US protectionism? *Intereconomics*, 3(11), 323-354. Ikenson, D. (2006). Leading the way: How U. S. trade policy can overcome Doha's failings. *Trade Policy Analysis*, 33, 1-24. Krugman, P. R. (1987). Is free trade passe? *Economic Perspectives*, 1(2),

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